

Title-holding corporation subsidiary. An organization incorporated as a subsidiary of an exempt title-holding corporation for the exclusive purpose of holding title to investment property, collecting the income therefrom, and turning over such income, less expenses, to the parent, qualifies for exemption under section 501(c)(2) of the Code.

Advice has been requested whether the organization described below is exempt from Federal income tax under section 501(c)(2) of the Internal Revenue Code of 1954.

For good business reasons, the organization was incorporated as a subsidiary of Corporation X, a title-holding company exempt from Federal income tax under section 501(c)(2) of the Code, for the exclusive purpose of holding title to investment property that would otherwise be held by Corporation X. All of the stock of the organization is held by Corporation X and all of its income, less expenses, will be distributed to Corporation X at least annually. Corporation X will, in turn, distribute the income to its parent organization, which is exempt from Federal income tax under section 501(c)(3).

Section 501(c)(2) of the Code provides for the exemption from Federal income tax of corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from Federal income tax under section 501(a).

Section 1.501(c)(2)-1 of the Income Tax Regulations states that an organization cannot be exempt under section 501(c)(2) of the Code if it engages in any business other than that of holding title to property and collecting income therefrom. In addition, the regulation states that an organization described in section 501(c)(2) cannot accumulate income and retain its exemption, but must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a).

Since the subject organization merely holds title to investment property for, and turns over the income therefrom to, its parent, which is an organization exempt under section 501(a) of the Code, and since it otherwise satisfies the requirements of the pertinent provisions of the Code and regulations, it is exempt from Federal income tax under section 501(c)(2).

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(2) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located

the principal place of business of principal office of the organization. See section 1.501(a)-1 of the regulations.